

EU - Switzerland missed deal

A lost opportunity to further European Integration

Redatto da:

Marco Zecchillo - Junior Researcher Economic Area Mondo Internazionale G.E.O.

Mondo Internazionale
Associazione culturale
Gallarate, Via Marco Polo 31
21013 - VA, Italia
C.F. 91071700123
P.IVA 03727710125

Mail: segreteria@mondointernazionale.com

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ABSTRACT

The relationship between the European Union and Switzerland has a long and complex history, made up of a considerable number of separate trade deals on a diversified array of subjects. With the withdrawal from the negotiations of the draft towards the Institutional Framework Agreement (InstA) decided by the Helvetic Confederation, the climate of cooperation between the two actors has halted to a sudden stop. As Switzerland domestic parties expressed their doubtful attitude towards some pivotal points of the Framework, talks have been suspended in late May 2021 and have not, at the time of writing, still resumed. This short review poses its attention on the relations so far with Switzerland, the domestic motives under EU partner's withdrawal and the hypothetical downsides for what a more connected Europe is concerned, under the standpoint of electric energy flows. Switzerland's renounce to bilateral talks can seriously pose a threat for future trade deals, carrying the risk for the existing ones to become outdated. The nation's central position in the heart of Europe and in the middle of the Union's top three economic powerhouses (i.e., Germany, France and Italy) naturally requests for constant communication and for legal framework harmonisation between these entities. To exemplify this, 1.4 Million EU citizens work or reside constantly in Switzerland. Having diversified legal systems and disharmonious policies can surely contribute to uncertainty for investors, creating unexploited opportunities for mutual growth. As flows of energy become increasingly fundamental for the development of a truly supranational European economy, the halt of party talks might trigger the previously exposed phenomenon, with unexploited fields for *win-win* cooperation.

1. Overview of EU-Switzerland Economic Relations

European Union-Switzerland relations are composed of a wide array of bilateral deals, ranging from the free movement of people to environmental and agricultural law harmonisation. The Union is the Confederation's first trade partner, while Switzerland is EU's fourth largest one (after the UK, the USA, and the People's Republic of China), underlying the considerable weight each actor mutually possesses for the other. The Union's imports from the country mainly relate to the pharmaceutical industry, but also to machinery and clockwork, one of the worldwide famous excellencies of Switzerland's manufacturing processes.

The Union runs a negative net export balance (i.e., it imports more than the quantity it exports) in the fields of goods and services trade.

The Confederation's integration with the EU and the global market is widely known, thanks to harmonised tariffs. One peculiar sector with higher tariffs consists of the agricultural industry, with processed produces being endowed with an additional degree of protection with respect to the other types of goods.

2. The End of Talks: Swiss Fears of Wage Dumping and Europe's Response

Several opinions on the matter describe the end of talks as a paradox, provided the extension and the depth of relations established across the decades between the European Union and Switzerland. Given the complexity of the bilateral treaties (already partially rationalised for simplicity necessities under the Bilateral Agreements I and II of the late 1990s and early 2000s), an additional agreement would have allowed for further simplification towards the establishment of a common level-playing field. This aspect shall also be interpreted as an effort to an updating of economic relations, as the Framework Agreement would have covered numerous areas, as agricultural and mutual recognition of industrial standards, for instance.

In this respect, the halt of negotiations could lead to the obsolescence of the kaleidoscope of the treaties currently into force, as those following the 2004 Bilateral Agreement II. For these reasons, it might be argued that EU-Switzerland relations might fail to keep the pace of the mutations of the global economy, compelling the actors to update the treaties approved decades earlier. The European Commission had expressed its disagreement with the Swiss decision, both for the missed progress made towards the drafting of the Institutional Framework Agreement and for the difficulty that trade talks between the two sides will assume in the near future. As previously highlighted, the risk consists of the fact that trade relations might undergo a stagnating phase, missing valuable opportunities to respond to the challenges posed by the changes of the international scenario. As analysed by Swiss think tank *BAK Economics,* Switzerland's economy might be defined as inherently export-oriented. In a scenario where economic relations with the EU are still tense and without a resumption of cooperative behaviour, a 12 percent reduction in possible earnings from exports could be witnessed in the sectors affected by the suspension. Without a comprehensive accord with the rest of Europe, the country might relatively lose competitiveness in crucial sectors as electric energy management (which will be analysed more deeply within the next paragraph), yielding negative externalities to the economy as a whole due to structural slowdown.

PM Parmelin's choice surely does not derive from his unilateral willingness. Rather, domestic pressure groups and civil society have expressed symptoms of uneasiness when presented with some of the points included in the draft. Switzerland's political system strongly relies on the opinion of civil society, provided the long tradition and history of *referenda* being invoked on subjects rarely submitted to popular vote in traditional European democracies, as international treaties approval, for example.

Namely, concern has been directed at avoiding easier access for European labourers, as to avoid the risk of *wage dumping*. Higher Swiss wages are a constant preoccupation for the government and pressure rising from civil and political parties is a factor that cannot remain unheard at the upper levels of governance. Inasmuch the protection of higher wages is concerned, avoiding social dumping at all costs constitutes one of the several reasons leading to the demise of the negotiations. Lower EU wages, tied to the tendency for companies to seek cheaper labour is clearly something Switzerland aims at avoiding. The practice of *wage dumping* might unleash labour market distortions, as the lowering of salary in the immigration recipient nation. Thus, a rationale of self-protection might be deemed to be underlying part of the decision to stop the bilateral talks.

Generally, apart from wage-related issues, several implications could follow as an aftermath to the Swiss renounce, including the previously treated obsolescence of older treaties, once neglected the possibility of a unitary and organic framework agreement. With bilateral agreements approaching their date of termination and with a renovated uneasiness to entertain a new round of parlays between the parties involved, crucial services might flow relatively more hardly across Swiss territory. These sectors might involve, amongst the others, energy and sanitary equipment shipping, all activities requesting the Swiss territory to be utilised as a land of transit.

As a last point, it is arguable that the loopholes and the gaps in a homogeneous legal background on the analysed issue areas could hamper the path towards an increasingly intertwined and interconnected Europe. An area of slowdown could affect both partners as a sudden brake at the core of the networks of the Western European region.

2.1 Energy: Uncertainties in EU-Swiss Relations. How They May Cause Problems

The idea of establishing a common and homogenised level-playing field in the energetic sector is an issue often discussed in EU-Switzerland discussions. Clearly, the interruption of the process to the framework yields additional volatility on the energetic sector. Switzerland's territory is utterly crucial due to its central position at the meeting point of the three largest EU economies. In order to assess the eventual consequences of the missed agreement, attention to the delicate energetic sector shall be posed.

Although the Institutional Agreement does not, per se, revolve primarily around the energetic subject, the climate of cooling relations could produce spill over effects equally onto this domain.

With respect to the flow of electricity across the Swiss land, the lack of an agreement could further exacerbate the existing cleavage between physical and legal proximity of the country in relation to its neighbours. Despite a direct link to French and Italian infrastructures, a homogenous legal background results to be missing, leading to renovated uncertainties for investors. In the lack of a continent-wide institutional substrate and with Switzerland playing the role of an important transition hub for electric energy between Southern and Northern Europe, the absence of harmonious norms is logically problematic. Specifically, it might set a

hurdle for seizing the benefits deriving from cross-border cooperation and simplified legal procedures in the fully integrated region Western Europe embodies nowadays.

Other problems might follow. For instance, after missing a Europe-wide accord on electricity, the Swiss internal logistical system might struggle to exploit the economies of scale deriving from the adhesion to an already well-established network of electric energy distribution. This would entail unwanted vulnerability on the Swiss side to sudden shocks, as excessively massive flows.

In addition to this, the creation of an EU-Switzerland framework might provoke reassuring effects on investors, creating a fertile ground for future investment in renewables, closely correlated to an easy and rapid transferral of electric energy. Being the green transition a shared objective between the two sides, the end of talks could cast some doubts on this particular field, in which cooperation is surely beneficial. Under this light, the temporary disruption of the draft of the deal may embody a lost opportunity to collaborate and to deepen legislative harmonisation on environmental protection.

3. Conclusion

The worsening of relations between the European Union and Switzerland could affect other issue areas not directly involved by the InstA. As the small-sized European country responds to internal opposition and pressure by interrupting the negotiations to the draft, dangerous effects may be on the horizon. As shown, uncertainties over the future establishment of a more intertwined framework could dismay investors. Moreover, the energetic sector (i.e., the electric energy supply and transportation) may undergo a phase of slowdown, provided the gaps in a mutual legal background. This aspect may further affect the efficacy of measures taken to foster greener energy production, given that a slower network of distribution could fail to attract investment and to be competitive.

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